

Message Text

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ACTION EUR-12

INFO OCT-01 ISO-00 AID-05 CEA-01 CIAE-00 COME-00 EB-08
EA-10 FRB-03 INR-07 IO-13 NEA-10 NSAE-00 USIA-06
OPIC-03 SP-02 TRSE-00 LAB-04 SIL-01 AGRE-00
OMB-01 SS-15 NSC-05 STR-07 XMB-02 L-03 H-01 PA-01
PRS-01 DOE-11 SOE-02 /135 W
-----092429 302036Z /43

R 301958Z JAN 78
FM AMEMBASSY PARIS
TO SECSTATE WASHDC 4997
AMEMBASSY BONN
INFO AMEMBASSY BRUSSELS
AMEMBASSY LONDON

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USOECD

USEEC

PASS: CEA FOR CHAIRMAN SCHULTZE, TREASURY AND FEDERAL
RESERVE

E.O. 11652: N/A
TAGS: OECD, ECON, GW
SUBJECT: GERMAN ECONOMIC PROGRAM FOR 1978 - INITIAL
OECD SECRETARIAT REACTIONS

REF: BONN 1696

1. SUMMARY: IN TENTATIVE INTERNAL CALCULATION REVEALED
TO MISSION (PLEASE KEEP NOFORN), OECD SECRETARIAT HAS
REVISED DOWNWARD ITS 1978 FORECAST FOR GERMANY, BASED
ON PRELIMINARY 1977 OUTCOME AND RECENTLY RELEASED FRG
ECONOMIC PROGRAM FOR 1978 (WITH ITS 3-1/2 PERCENT GROWTH
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TARGET). SECRETARIAT NOW TENTATIVELY PROJECTS 2.7 PER-
CENT REAL GNP GROWTH, VS. 3.2 PERCENT IN DECEMBER "ECO-
NOMIC OUTLOOK" (EO22). SECRETARIAT HAS ALSO PERFORMED
PRELIMINARY ANALYSIS OF IMPACT OF MARGINAL FRG GROWTH
ON ITS TRADING PARTNERS, IN RESPONSE TO CHANCELLOR
SCHMIDT'S RECENT STATEMENT TO THE BUNDESTAG. SECRETARIAT
ANALYSIS SHOWS THAT SCHMIDT'S FIGURES SUBSTANTIALLY

UNDERESTIMATE IMPACT. SECRETARIAT OF TWO MINDS ON HOW TO HANDLE GERMAN QUESTION IN FEBRUARY 27-28, 1978 EPC MEETING, WHETHER TO (A) BRING PRESSURE A LA NOVEMBER EPC OR (B) LAY BACK GIVEN CURRENT FRG SENSITIVITIES AND HOPING THAT POOR GROWTH PERFORMANCE AND POSSIBLE FURTHER DM APPRECIATION WILL EVENTUALLY GENERATE DOMESTIC PRESSURES ON FRG TO ACT. SECRETARY-GENERAL'S ECONOMIC ADVISER (MARRIS) WILL VISIT BONN THIS WEEK IN RESPONSE TO EARLIER INVITATION BY FRG OFFICIALS. END SUMMARY

2. IN LIGHT OF NEWLY RELEASED FRG ECONOMIC REPORT FOR 1978 AND RECENT STATEMENTS BY SENIOR FRG OFFICIALS, INCLUDING CHANCELLOR SCHMIDT, ON 1977 OUTCOME AND PROSPECTS FOR 1978, OECD SECRETARIAT HAS MADE TENTATIVE REVISION OF ITS 1978 FORECAST FOR GERMANY AS IT APPEARS IN DECEMBER "ECONOMIC OUTLOOK." THE FOLLOWING INTERNAL SECRETARIAT CALCULATIONS HAVE BEEN GIVEN PRIVATELY TO MISSION AND KNOWLEDGE OF THEM SHOULD NOT BE REVEALED OUTSIDE OF U.S. GOVERNMENT:

1977			
EO 22		ACTUAL (1)	
Q3	Q4	Q3	Q4

PRIVATE CONSUMPTION	5.1	6.9	8.1	3.4
GOVERNMENT CONSUMPTION	3.0	3.1	3.4	5.7
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GROSS FIXED INVESTMENT	1.3	4.5	3.6	-14.4
CONSTRUCTION	0.7	4.4	1.5	-24.8
MACH. AND EQUIP.	2.2	4.7	6.8	2.9
FINAL DOMESTIC DEMAND	3.8	5.6	6.2	-1.7
STOCKBUILDING (CONTRIB.)				
	#0.4	#0.8	#0.8	#0.2
TOTAL DOMESTIC DEMAND	4.2	6.4	7.0	-1.4
FOREIGN BALANCE	-2.9	-1.2	-7.8	#4.8
EXPORTS	2.1	3.5	-2.1	24.2
IMPORTS	15.0	8.9	28.2	6.3
GNP	1.1	4.9	-0.4	3.4

1 Q3 REVISED; Q4 IMPLIED BY PRELIMINARY OUTCOME FOR WHOLE YEAR.

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1977 1978
EO 22 ACTUAL EO 22 IMPLIED(1)

PRIVATE CONSUMPTION	2.9	2.9	3.3	2.6
GOVERNMENT CONSUMPTION	0.8	1.0	3.1	3.6
GROSS FIXED INVESTMENT	3.8	2.8	4.1	0.6
CONSTRUCTION	3.5	1.6	3.7	-2.3
MACH. AND EQUIP.	4.2	4.6	4.8	5.0
FINAL DOMESTIC DEMAND	2.7	2.5	3.4	2.3
STOCKBUILDING (CONTRIB.)				
	0	0	0	0
TOTAL DOMESTIC DEMAND	2.7	2.5	3.4	2.3
FOREIGN BALANCE	0.1	-0.1	-0.1	#0.5
EXPORTS	3.9	4.6	4.7	7.6
IMPORTS	4.1	5.4	5.8	6.7
GNP	2.7	2.4	3.2	2.7

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1 SAME GROWTH THROUGH 1978 AS IN EO 22 (Q4 OVER Q4 BUT
BASED ON IMPLIED ACTUALS FOR 1977Q4.

3. SECRETARIAT NOTES THAT FOURTH QUARTER 1977 STATIS-

TICS IMPLY SPECTACULAR GROWTH IN EXPORTS WHICH RESULTED IN CURRENT SURPLUS FOR FULL YEAR OF DM 8.2 BILLION VS. 5 BILLION EXPECTED BY SECRETARIAT. SECRETARIAT ALSO CAUTIONS THAT MECHANICAL HALF-PERCENT DOWNWARD ADJUSTMENT OF 1978 GNP REAL GROWTH, TO 2.7 PERCENT, MAY BE TOO GREAT GIVEN POSSIBILITY OF RECOVERY IN CONSTRUCTION FROM DRASTIC CUT IN Q477.

4. SECRETARIAT HAS ALSO PERFORMED SOME PRELIMINARY ANALYSES ON CHANCELLOR SCHMIDT'S STATEMENT TO BUNDESTAG REGARDING IMPACT OF GERMAN GROWTH ON ITS MAJOR EUROPEAN TRADING PARTNERS. SCHMIDT REPORTEDLY SAID THAT ONE PERCENT FASTER GROWTH IN FRG WOULD INCREASE GROWTH IN UK BY ONLY 0.05 PERCENTAGE POINTS AND IN FRANCE BY 0.07 PERCENTAGE POINTS. SECRETARIAT CALCULATIONS, USING CONSERVATIVE ESTIMATE OF FRG IMPORT ELASTICITY (I.E., 2) AND THE 1976 TRADE SHARES MATRIX, REVEAL THAT SCHMIDT'S ESTIMATES SEEM TO INCLUDE ONLY DIRECT, FIRST-ROUND IMPACT OF FASTER FRG GROWTH. IF APPROPRIATE MULTIPLIERS AND INTERNATIONAL LINKAGES ARE CONSIDERED, SECRETARIAT ESTIMATES THAT ONE PERCENT FASTER GROWTH IN FRG WOULD ADD APPROXIMATELY 0.20 PERCENTAGE POINTS TO UK GROWTH, 0.31 TO FRANCE, 0.38 TO ITALY, MORE THAN 0.50 TO BENELUX AND ALMOST 0.50 TO SCANDINAVIA; ALL AFTER 12 MONTHS SUSTAINED FASTER FRG GROWTH. OVERALL IMPACT ON OECD-EUROPE WOULD BE TO RAISE GROWTH RATE BY ONE-HALF PERCENTAGE POINT. THESE CALCULATIONS DO NOT, REPEAT NOT, TAKE ACCOUNT OF EASED BOP CONSTRAINT ON E.G., FRANCE, LIMITED OFFICIAL USE

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SCANS, AUSTRIA WHICH WOULD LIKELY PERMIT THEM TO TAKE FURTHER DOMESTIC STIMULUS MEASURES.

5. SENIOR SECRETARIAT OFFICIALS ARE OF TWO MINDS ON HOW TO TREAT GERMAN QUESTION IN UPCOMING FEBRUARY 27-28 EPC. ON ONE HAND, SECRETARIAT WOULD LIKE TO TAKE ADVANTAGE OF GERMAN UNCERTAINTY OVER FORECASTS (E.G., FRG STATEMENT THAT 3.5 PERCENT YEAR/YEAR IS AMBITIOUS, AND CONDITIONAL) AND ENGENDER DISCUSSION OF (A) WHAT SLOWER FRG GROWTH WILL MEAN TO OTHER OECD-EUROPE AND (B) MEASURES FRG COULD TAKE TO SPEED GROWTH. ON LATTER POINT, SECRETARIAT IS SPECIFICALLY PROMOTING FURTHER TAX ADVANTAGES FOR INVESTMENT AND INTEREST RATE SUBSIDIES FOR SELECTED INVESTMENT PROJECTS (E.G., 20 YEAR - 3 PERCENT GOVERNMENT GUARANTEED LOANS). ON OTHER HAND, SECRETARIAT FEARS THAT ANY PRESSURE MAY BE COUNTERPRODUCTIVE GIVEN CURRENT GERMAN DEFENSIVENESS AND THAT BEST POSTURE MAY BE TO WAIT FOR DOMESTIC PRESSURE TO BUILD UP IN GERMANY AS PROBLEMS CAUSED BY SLOW GROWTH, INCLUDING CONTINUING UNEMPLOYMENT AND POSSIBLE FURTHER APPRECIATION

OF DM, MANIFEST THEMSELVES. IT WAS EVIDENT THAT THINKING WAS STILL EVOLVING AS SECRETARIAT ENTERED STAGE OF PREPARING DOCUMENTATION FOR EPC.

6. SECRETARY-GENERAL'S ECONOMIC ADVISER, STEPHEN MARRIS, IS VISITING BONN THIS WEEK AT EARLIER INVITATION OF FRG OFFICIALS. HIS IMPRESSION WILL PRESUMABLY HELP FORM LINE TO BE TAKEN BY SECRETARIAT.
KATZ

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